

# FRAUD ALERT

*Educating South Carolina's Consumers*

A Publication of the South Carolina Task Force on Fraud



February 2007

Volume 2, Issue 1

[www.scconsumer.gov](http://www.scconsumer.gov)

If you would like to receive a free subscription to the *Fraud Alert*, contact the South Carolina Department of Consumer Affairs at 803.734.4200 or e-mail [Fraud\\_Alert@dca.state.sc.us](mailto:Fraud_Alert@dca.state.sc.us)

## Tax scams that get you nothing but trouble for a return

Tax time is just around the corner and the South Carolina Department of Consumer Affairs and the IRS are urging you to please avoid these 12 popular tax scams. The IRS warns that that no matter who prepares the return, the taxpayer is ultimately responsible for its accuracy.

**Zero Wages** - In this relatively new scam a taxpayer attaches to his or her return either a Form 4852 (Substitute Form W-2) or a "corrected" Form 1099 that shows zero or little wages or other income. The taxpayer may include a statement indicating the taxpayer is rebutting information submitted to



the IRS by the payer. The Form 4852 or 1099 is usually attached to a "Zero Return."

**Zero Return** - Promoters instruct taxpayers to enter all zeros on their federal income tax filings. In a twist on this scheme, filers enter zero income, report their withholdings and then

write "nunc pro tunc" - Latin for "now for then" - on the return. They often also do this with amended returns in the hope the IRS will disregard the original return in which they reported wages and other income.

**Form 843 Tax Abatement** - This scam is also fairly new and rests on the faulty interpretation of the Internal Revenue Code. It involves the filer requesting abatement of previously assessed tax using Form 843. Many using this scam have not previously filed tax returns, and the

*Continued on Page Four*

## Sweepstakes Scams turn 'winners' into losers

The old "Sweepstakes Scam" is back in circulation in South Carolina with a new wrinkle that makes this old con even harder for consumers to know they're being duped.

Con artists are using the lure of a sweepstakes to convince consumers to send in money to claim a "prize" they've supposedly won. They tell consumers that the only thing that

*Continued on Page Two*

## Don't pay to borrow your own money: The risks and costs of Tax Refund Anticipation Loans

How would you like to pay a super-high price to borrow money that already belongs to you? Sounds ridiculous, right? But that's pretty much what happens to many folks at tax time in the crazy world of refund anticipation loans (RALs).

You may be tempted by tax-time advertisements for "Fast Cash Refunds," "Express Money," or "Instant Refunds." These ads will

offer to get you your refund in just a day or two, or even on the spot. Beware! Many of these "fast refunds" are really LOANS, refund anticipation loans, that are based on your own tax refund money.

When you get a RAL, you're borrowing against you own tax refund money and it's not cheap. Loan fees typically range from

*Continued on Page Three*

To submit an article for the *Fraud Alert*, please contact Charles Ellison at the South Carolina Department of Consumer Affairs at 803-734-4203 or via email at [Ellison@dca.state.sc.us](mailto:Ellison@dca.state.sc.us).



## 'Hitman' e-mail scam threatens your wallet more than your life

A new e-mail scam is showing up in e-mail boxes across the country that preys not on a person's greed or good intentions, but rather on their fears.

The scam e-mail claims to be from an assassin contracted to kill you by someone close to you. Lucky for you, though, the letter states the assassin will not go through with the contract if you pay him thousands of dollars.

You have nothing to fear.

The e-mail is just one of the newest Internet related scams or

frauds.

The "Hitman" e-mail first appeared in December and is believed to have originated in Russia. About 115 complaints have been filed with the FBI's Internet Crime Complaint Center (IC3) since it emerged.

FBI officials have said the extortion scam does not appear to target anyone specifically and that IC3 has not received any reports of money loss or threats carried out. They recommend you do not reply to the e-mails, as it just sends a

signal to senders that they've reached a live account and may escalate the intimidation.

The scam is already being tried with a new twist, as e-mails are now surfacing that claim to be from the FBI, informing recipients that an arrest was made in the case. The e-mail asks the recipient for personal information to help further the investigation.

This, too, is a scam.

When it comes to suspicious e-mails, it's your wallet, not your life that you have to worry about.

### CONTINUED from Page 1: Sweepstakes Scams turn 'winners' into losers

separates them from their "winnings" is a fee to cover the taxes or service charges.

As all too many consumers have found out, the winnings promised are never delivered, and the "winner" ends up losing the money they've paid these con artists.

In a new spin on the age-old sweepstakes scam, crooks are getting bolder, using names of government agencies and legitimate phone numbers that mask where they're calling.

Claiming to represent "the national consumer protection agency," the non-existent National Sweepstakes Bureau, and even the Federal Trade Commission (FTC), they say that the delivery of the sweepstakes prize is being supervised by the supposed government agency. And they're using Internet technology to make

it appear that they're calling from Washington, DC, the nation's capital, or the consumer's own area code.

These scammers then convince consumers to wire money to a foreign country — they usually suggest using a commercial money transfer company like Western Union to wire the money — to an agent of "Lloyd's of London" or some other well-known insurance company to "insure" delivery of the "prize."

In fact, no insurance company is involved; con artists take the money and disappear.

According to the real Federal Trade Commission, the U.S. government's chief consumer protection agency, consumers can keep from falling for the lure of the sweepstakes scam by taking a few precautions.

The South Carolina Department of Consumer Affairs recommends consumers take the following precautions to keep from falling for the sweepstakes scam:

- Don't pay to collect sweepstakes winnings. If you have to pay to collect your winnings, you haven't won anything. Legitimate sweepstakes don't require you to pay "insurance," "taxes" or "shipping and handling charges" to collect your prize.

- Hold on to your money. Scammers pressure people to wire money through commercial money transfer companies like Western Union because wiring money is the same as sending cash. If you discover you've been scammed, the money's gone, and there's very little chance of recovery. Likewise, resist any push to send a check or money

Continued on Page Three

## **CONTINUED from Page 1: Don't pay to borrow your own money**

\$30 to \$90, which translates into an Annual Percentage Rates of about 60% to over 700%. If you paid those rates on all your borrowing you'd probably go broke!

RAL fees, combined with tax preparation, electronic filing, and other fees, can end up eating away a big chunk of your refund.

In addition to their high costs, RALs can be risky. Since a RAL is a loan from a bank in partnership with a tax preparer, it must be repaid even if the IRS denies or delays your refund or if your refund is smaller than expected. If you don't pay back the RAL, the lender can

take actions to hurt your credit rating and may send your account to a debt collector. In addition, when you apply for a RAL, you are giving the lender the right to grab your tax refund to pay for old tax loan debts that the lender claims you owe.

All to get your tax refund just a few days earlier than you can for free from the IRS. Essentially you're lining someone else's pockets with YOUR hard-earned money. Worse, RALs are often marketed to people who need money the most – low- and moderate-income workers who receive the Earned Income Tax Credit.

**Ways to avoid RALs and save at tax time:**

- E-File with Direct Deposit – File your tax return electronically (E-File) to speed up your refund. Tell the IRS to deposit the refund directly into your bank account. You provide your account number right on your tax return. You can get a refund in about 10 days this way – without paying one cent extra.

- Volunteer Income Tax Assistance (VITA) – VITA sites

provide free tax preparation to low- and moderate-income taxpayers. These sites are sponsored by the IRS and can be found in libraries, community centers, and other locations during tax time. If you have Internet access, you may be able to get free tax preparation and electronic filing at [www.icanefile.org](http://www.icanefile.org).

- Wait just a bit longer – Do you really have to get cash from your tax refund today? Can you wait a few weeks to save almost \$100? If you have an urgent bill to pay, ask for more time until the tax refund check comes from the IRS. Don't take on a new expensive debt to pay an old bill.

- Avoid check cashers – Check cashers charge an extra fee to cash RAL and tax refund checks. Some check cashers charge up to 7% to cash a RAL check – the average is about 3%. If you receive a \$2,000 refund it would cost you an average of \$60 to cash the RAL check on top of the RAL and tax preparation fees. A smarter move is to use a bank account.



## **CONTINUED from Page 2: Sweepstakes Scams turn 'winners' into losers**

order by overnight delivery or courier. Con artists recommend these services, so they can get to your money before you realize you've been cheated.

- Look-alikes aren't the real thing. It's illegal for any promoter to lie about an affiliation with — or an endorsement by — a government agency or any other well-known organization. Disreputable companies sometimes use a variation of an official or nationally

recognized name to try to confuse you and give you confidence in their offers. Insurance companies, including Lloyd's, do not insure delivery of sweepstakes winnings.

- Phone numbers can deceive. Some con artists use Internet technology to call you. It allows them to disguise their area code: although it may look like they're calling from Washington, DC or your local area, they could be calling from anywhere in the world.

- If you haven't entered a sweepstakes, chances are you have not won a sweepstakes.

- Take control of the calls you receive. If you want to reduce the number of telemarketing calls you receive, place your telephone number on the National Do Not Call Registry.

To register online, visit [www.donotcall.gov](http://www.donotcall.gov). To register by phone, call 1-888-382-1222 from the phone number you wish to register.



## CONTINUED from Page 1: Tax Scams that get you nothing but trouble

tax they are trying to have abated has been assessed by the IRS through the Substitute for Return Program.

**Phishing** - This is a technique used by identity thieves to acquire personal financial data in order to gain access to the financial accounts of unsuspecting consumers, run up charges on their credit cards or apply for new loans in their names. These Internet-based criminals pose as representatives of a financial institution and send out fictitious e-mails in an attempt to trick consumers into disclosing private information. These scammers even pose as the IRS. Taxpayers should take note: The IRS does not use e-mail to initiate contact with taxpayers about issues related to their accounts. If a taxpayer has any doubt whether a contact from the IRS is authentic, the taxpayer should call 1-800-829-1040 to confirm it.

**Trust Misuse** - For years unscrupulous promoters have urged taxpayers to transfer assets into trusts. They promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes. However, some trusts do not deliver the promised tax benefits, and the IRS is actively examining these arrangements.

**Frivolous Arguments** - Promoters have been known to make the following outlandish claims: the Sixteenth Amendment concerning congressional power to lay and collect income taxes was never ratified; wages are not income; filing a return and paying taxes are merely voluntary; and being required to file

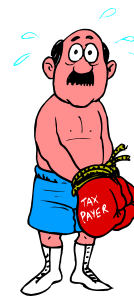
Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. Don't believe these or other similar claims. These arguments are false and have been thrown out of court.

**Return Preparer Fraud** - Dishonest tax return preparers can cause many headaches for taxpayers who fall victim to their schemes. Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees for return preparation services. They attract new clients by promising large refunds. Taxpayers should choose carefully when hiring a tax preparer.

**Credit Counseling Agencies** - Taxpayers should be careful with credit counseling organizations that claim they can fix credit ratings, push debt payment plans, or impose high set-up fees or monthly service charges that may add to existing debt.

If a taxpayer plans to hire a credit counseling agency, they should contact SCPCA to make sure the business is licensed.

**Abuse of Charitable Organizations and Deductions** - The IRS has observed increased use of tax-exempt organizations to improperly shield income or assets from taxation. This can occur, for example, when a taxpayer moves assets or income to a tax-exempt supporting organization or donor-advised fund but maintains control over the assets or income, thereby obtaining a tax deduction without transferring a commensurate benefit to charity.



**Don't let a crooked tax preparer get you in trouble. Remember you are ultimately responsible for your taxes.**

**Offshore Transactions** - Despite a crackdown by the IRS and state tax agencies, individuals continue to try to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities or life insurance to do so.

**Employment Tax Evasion** - The IRS has seen a number of illegal schemes that instruct employers not to withhold federal income tax or other employment taxes from wages paid to their employees. Such advice is based on an incorrect interpretation of Section 861 and other parts of the tax law and has been refuted in court. Employer participants can also be held responsible for back payments of employment taxes, plus penalties and interest.

**"No Gain" Deduction** - Filers attempt to eliminate their entire adjusted gross income (AGI) by deducting it on Schedule A. The filer lists his or her AGI under the Schedule A section labeled "Other Miscellaneous Deductions" and attaches a statement to the return that refers to court documents and includes the words "No Gain Realized."

South Carolina Department of Consumer Affairs	Office of the Attorney General	South Carolina Law Enforcement Division	South Carolina Sheriff's Association	Federal Bureau of Investigation	United States Attorney's Office	United States Secret Service	South Carolina Police Chiefs' Association
3600 Forest Drive Suite 300 P.O. Box 5757 Columbia, SC 29250 www.sccoconsumer.gov 1.800.922.1594 (803)734.4200	1000 Assembly Street Suite 519 P.O. Box 11549 Columbia, SC 29211 www.scattorneygeneral.org (803)734.3970	4400 Broad River Road P.O.Box 21398 Columbia, SC 29221 www.sled.state.sc.us (803)737.9000	112 West Park Blvd. P.O.Box 21428 Columbia, SC 29210 www.sheriffsc.com (803)772.1101	151 Westpark Blvd. Columbia, SC 29210 www.fbi.gov (803)551.4200	1441 Main Street Suite 500 Columbia, SC 29201 www.usdoj.gov/usao/sc/ (803)929.3000	107 Westpark Blvd. Suite 301 Columbia, SC 29210 www.secretservice.gov (803)772.4015	4701 Arcadia Road P.O.Box 61170 Columbia, SC 29260 www.scpca.org (803)790.5042